

City of El Paso, Texas

Single Audit Reports

Year Ended August 31, 2009



City of El Paso, Texas
Year Ended August 31, 2009

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City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards
Year Ended August 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
High Intensity Drug Trafficking Areas	Executive Office of the President Office of National Drug Control Policy	7.000	HIDTA-Transportation	\$ 27
			I6PSWP574 (Sting)	152
			I7PSWP574 (Sting)	15,761
			I7PSWP574 (Stash House)	35,848
			I7PSWP574 (Transportation)	2,275
			I7PSWP574 (OCDETF)	8,000
			I8PSWP574 (Intelligence)	77,994
			I8PSWP574 (Multi Agency)	179,049
			I8PSWP574 (Transportation)	8,579
			I8PSWP574 (Fugitive)	16,246
			I8PSWP574 (Sting)	911,659
			I8PSWP574 (Stash House)	231,908
			I8PSWP574 (Enterprise)	10,257
			I6PSWP574 (Stash House)	67
			I7PSWP574 (OCDETF)	7
			I7PSWP574 (Sting)	4,681
			I7PSWP574 (Intelligence)	2,246
			I7PSWP574 (Stash House)	5,527
			I7PSWP574 (Multi Agency)	10,495
			I7PSWP574 (Transportation)	11,095
			I7PSWP574 (Fugitive)	1,614
				389,716
				76,218
	209,911			
	2,482			
	654			
	4,218			
	6,001			
	17,876			
	7,481			
	<u>2,248,044</u>			
Total Executive Office of the President				2,248,044

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Special Supplemental Nutrition Program for Women, Infants, and Children	U.S. Department of Agriculture/ Texas Department of State Health Services	10.557	1106AD WIC ADMIN FY06 DSI	(31)
			2007-020878-001 (Admin)	(118)
			2007-020878-001 (Breastfeeding)	(6)
			2007-020878-001 (Nutrition)	(129)
			2008-024651-001 (Admin)	726,067
			2008-024651-001 (Breastfeeding)	40,429
			2008-024651-001 (Nutrition)	159,714
				<u>4,065,505</u>
	274,429			
	1,254,833			
	4,454			
	276			
	114			
	<u>6,525,537</u>			
	Total U.S. Department of Agriculture			
Economic Adjustment Assistance	Department of Commerce Economic Development Administration	11.307		8,877
Public Safety Interoperable Communications Grant Program	Department of Commerce National Telecommunications and Information Administration	11.555		(316,705)
				<u>(307,828)</u>
	Total Department of Commerce			
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	U.S. Department of Defense	12.607	RA0619-07-01	626,672
				<u>626,672</u>
	Total U.S. Department of Defense			
Community Development Block Grants/Entitlement Grants	U.S. Department of Housing and Urban Development	14.218	B-05-MC-48-0016	(250)
			B-06-MC-48-0016	857,276
			B-06-MC-48-0016	750,476
			B-07-MC-48-0016	2,629,485
			B-08-MC-48-0016	4,900,872
				<u>9,137,859</u>
Emergency Shelter Grants Program	U.S. Department of Housing and Urban Development	14.231	S-07-MC-48-0005	4,922
			S-08-MC-48-0005	375,258
				<u>380,180</u>

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Supportive Housing Program	U.S. Department of Housing and Urban Development	14.235	TX01B902001	33,355
HOME Investment Partnerships Program	U.S. Department of Housing and Urban Development	14.239	M-04-MC-48-0213 M-05-MC-48-0213 M-03-MC-48-0213 M-06-MC-48-0213 M-07-MC-48-0213 M-08-MC-48-0213	373,738 2,401,635 1,195,962 1,671,869 297,347 453,092 <hr/> 6,393,643
Empowerment Zones Program	U.S. Department of Housing and Urban Development	14.244	EZ99TX0013	43,638 <hr/> 166,840 <hr/> 210,478
ARRA - Community Development Block Grant	U.S. Department of Housing and Urban Development	14.253		1,465
ARRA - Neighborhood Stabilization Program	U.S. Department of Housing and Urban Development	14.256		43,330
Total U.S. Department of Housing and Urban Development				<hr/> 16,200,310 <hr/>
Juvenile Accountability Block Grants	U.S. Department of Justice/ Governor's Office of Criminal Justice	16.523	1335910	18,281 <hr/> 27,799 <hr/> 46,080
Part E - Developing, Testing, and Demonstrating Promising New Programs	U.S. Department of Justice	16.541	2007-DD-BX-0890	269,666
Crime Victim Compensation	U.S. Department of Justice/ Office of the Attorney General	16.576		75,002

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Crime Victim Assistance/Discretionary Grants	U.S. Department of Justice/ Office of the Attorney General	16.582	08-02413	48,004
Violence Against Women Formula Grants	U.S. Department of Justice	16.588	WF-07-V30-13413-10	91,399 (289)
				<u>91,110</u>
Community Capacity Development Office	U.S. Department of Justice	16.595		42,243
Bulletproof Vest Partnership Program	U.S. Department of Justice	16.607	N/A	31,401
Public Safety Partnership and Community Policing Grants	U.S. Department of Justice	16.710	95CCWX0207 95CCWX0207 2002CLWX0009 2005-VTBX-0014 2007CKWX0186	19,391 44,221 668 (3,558) 101,644 53,908
				<u>216,274</u>
Edward Byrne Memorial Justice Assistance Grant Program	U.S. Department of Justice	16.738	2006-DJ-BX-0121 2005-DJ-BX-0289	10,785 49,840 459,524 240,000
				<u>760,149</u>
	Total U.S. Department of Justice			<u>1,579,929</u>
Safe Routes to Schools	U.S. Department of Transportation	20.000	N/A	371,291
Airport Improvement Program	U.S. Department of Transportation	20.106	AIP3-48-0077-2002	7,590,887

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Highway Planning and Construction	U.S. Department of Transportation/ State Department of Highways and Public Transportation	20.205	N/A	6,469 140,515 59,750 1,086,354 44,553 690 1,757 1,582 <hr/> 1,341,670
Federal Transit_Formula Grants	U.S. Department of Transportation	20.507	Various	30,325,945
State and Community Highway Safety	U.S. Department of Transportation/ State Department of Highways and Public Transportation	20.600	588XXF6166 586XXF6027 588EGF6034 587XXF6107	12,432 19,390 12,577 (39,754) 115,706 (214) 479,263 <hr/> 599,400 <hr/> 40,229,193
Total U.S. Department of Transportation				
Promotion of the Arts_Grants to Organizations and Individuals	National Endowment for the Arts	45.024	07-28112 08-29277 08-29276 08-29278 07-28111	5,831 206 6,958 6,057 26,660 <hr/> 45,712
Promotion of the Arts_ Partnership Agreements	National Endowment for the Arts	45.025		388 40 <hr/> 428 <hr/> 46,140
Total National Endowment for the Arts				

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Promotion of the Humanities_ Federal/State Partnership	National Endowment for the Humanities	45.129	N/A	70
	Total National Endowment for the Humanities			70
Museums for America	Institute of Museum and Library Services/ Texas State Library	45.301	470-06-005	15,873
Grants to States	Institute of Museum and Library Services/ Texas State Library	45.310	470-08005	296,769
			476-07-015	2,183
				79,575
				19,940
				(994)
				<u>397,473</u>
	Institute of Museum and Library Services/ Texas State Library			413,346
Air Pollution Control Program Support	U.S. Environmental Protection Agency/Texas Commission on Environmental Quality	66.001		145,167
				133,336
				261,579
				134,868
				46,760
				23,009
				148,490
				422
				(109,725)
				(11,857)
				(990)
				(80)
				<u>35,663</u>
				806,642
Brownfields Assessment and Cleanup Cooperative Agreements	U.S. Environmental Protection Agency/Texas Commission on Environmental Quality	66.818	BF-9666030-1	9,767
			BF-9666040-1	7,197
				<u>16,964</u>
	Total U.S. Environmental Protection Agency			823,606
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Department of Health and Human Services	93.116	2008-025298, Attach 001	108,717
				<u>171,409</u>
				280,126

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
State and Local Homeland Security Training Program	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.005	2006-GE-T6-0068	287,224
Urban Areas Security Initiative	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.008	2007-GE-T7-0024	7,071 265,006 1,972 37,660 5,066 1,060,169 2,377 6,699 11 556,332 9,055
				<u>1,951,418</u>
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.036	DR-1658-TX	166,889 34,923
				<u>201,812</u>
Emergency Management Performance Grants	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.042	N/A	(62,524) (8) 192,396
				<u>129,864</u>
Assistance to Firefighters Grant	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.044	N/A	10,733 34,423 411,980
				<u>457,136</u>
Homeland Security Grant Program	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.067	N/A	1,316 196,418
				<u>197,734</u>

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Metropolitan Medical Response Support	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.071	EMW-2004-FP-02039 EMW-2003-FP-02038	70,705 (4,268) <u>151,804</u> 218,241
National Explosives Detection Canine Team Program	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.072	N/A	411,232
Law Enforcement Terrorism Prevention Program	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.074	N/A	287,704
Buffer Zone Protection Program (BZPP)	U.S. Department of Homeland Security/ Texas Department of Public Safety	97.078	2005-BZPP-24000	<u>158,656</u>
	Total U.S. Department of Homeland Security			<u>4,301,021</u>
Total Federal Awards Expended				<u>74,666,823</u>

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Granting Agency/Grant Program	Grant or Identifying Number	Amount Expended
Texas State Library & Archive Commission		
E-Rate Library Funds		\$ 12,788
E-Rate Library Funds		73,822
Loan Star Libraries Grant		87,814
		<u>174,424</u>
Texas Department of Aging and Disability Services		
Foster Grandparent Program		5,000
Retired Seniors Volunteer Program		31,909
Retired Seniors Volunteer Program	07RZWTX019	(344)
		<u>36,565</u>
Department of State Health Services		
TDH Tuberculosis	2008-023236, Attach 001	14,210
TDH Tuberculosis	7460007499-20056-07A	(99)
TDH Tuberculosis		384,469
Medical Institute	N/A	1
Medical Institute		4,487
HIV Surveillance	2008-023754, Attach 001	926
HIV Surveillance		12,696
Infectious Disease Unit		5,671
TDH Office Regional Planning	2008-024517, Attach 001	5,030
TDH Office Regional Planning		193,605
Immunization Branch - Locals (FY06 DSH)	2008-023559, Attach 001	43,019
Immunization Branch - Locals (FY07 DSH)	2007-021270, Attach 003B	1,265,714
CHS - Fee for Service FY07	2007-020437-001	178,827
Title V FEES _ Carryover	N/A	15,577
Title V FEES _ Carryover	2008-024169, Attach 001	987
CHS Population Based FY07	2006-020403-001	139,684
CHS Population Based FY08	2008-022986, Attach 001	8,326
Environmental Health Group	N/A	18
Bio Terrorism		75
Zoonosis		1,029
Zoonosis	N/A	28,833
Bio Terrorism Discretionary Ph		32,564
Ewids		41,452
		<u>2,377,101</u>
Texas Automobile Theft Prevention Authority		
ATPA Border Partners		951,459
ATPA Border Partners	SA-T01-10050-08	(23,761)
		<u>927,698</u>

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Granting Agency/Grant Program	Grant or Identifying Number	Amount Expended
Neighborhood Stabilization Program		13,732
Division of Emergency Management/ Office of the Governor		
Local Border Security Program		1,315,743
Border Star 3		2,220
Border Security Equipment and Tech		219
Mayor Advisory Council on Physical Fitness		65,169
General Victim Assistance		493
		<u>1,383,844</u>
Total State Awards Expended		<u>4,913,364</u>
Total Federal and State Awards Expended		<u><u>\$ 79,580,187</u></u>

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

Notes to Schedule

1. This schedule includes the federal and state awards activity of all federal and state financial assistance programs of the City of El Paso, Texas, and is presented on the cash basis of accounting, except for the FAA Airport Improvement grant and the FTA Capital and Planning grants, which use the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The accompanying schedule of expenditures of federal and state awards presents activity of all federal and state financial assistance programs of the City for the year ended August 31, 2009, except for the financial assistance received by the Public Service Board – El Paso Water Utilities. The City’s reporting entity is defined in note 1(A) of the City’s basic financial statements. Federal and state awards received directly from federal and state agencies, as well as federal and state financial assistance passed through other entities, are included on the schedule of expenditures of federal and state awards.

2. Amounts reported in the accompanying schedule of expenditures of federal and state awards may not agree with the amounts reported in the related federal and state financial reports filed with grantor agencies because of accruals that would be included in the subsequent reports filed with the agencies.
3. Of the federal and state expenditures presented in this schedule, the City provided federal awards to subrecipients as follows:

Program	CFDA Number	Subrecipient	Amount Provided
Community Development Block Grants/Entitlement Grants	14.218	Various	\$ 1,531,334
Emergency Shelter Grants Program	14.231	Various	380,180
Supportive Housing Program	14.235	Various	33,355
			<u>\$ 1,944,869</u>

No State of Texas funds were passed through to subrecipients in 2009.

City of El Paso, Texas
Schedule of Expenditures of Federal and State Awards (Continued)
Year Ended August 31, 2009

4. The City administers federal loan programs. These programs are initiated with a grant of federal funds and are sustained after the original money is distributed in loans by using principal payments for subsequent loans to qualified borrowers. The interest received is considered to be program income and is used to pay administrative costs associated with the programs as well as for subsequent loans. As of August 31, 2009, outstanding principal balances of these loans were as follows:

Federal Grantor/Program Title	CFDA Number	Loans Receivable Principal
Department of Housing and Urban Development:		
Community Development Block Grants/Entitlement Grants	14.218	\$ 15,229,034
HOME Investment Partnerships Program	14.239	25,151,328
Empowerment Zones Program	14.244	<u>2,869,196</u>
Total revolving loans		<u>\$ 43,249,558</u>

During fiscal year ended August 31, 1992, the City received a \$3,000,000 federal loan for construction work on the International Zaragosa Bridge. The balance of the loan at August 31, 2009 is \$1,250,000.

5. The accompanying schedule reflects certain adjustments resulting from fiscal adjustments to closed grants and transfers between grants. As a result, certain grants show negative expenditures.
6. Federal and state financial assistance programs are reported in the City's financial statements primarily in the Community Development Block Grants and Nonmajor Governmental Funds. Certain programs are included in the enterprise funds, of which certain grants are reported as capital contributions in the Income (Loss) Before Capital Contributions and Transfers section of the Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit) Proprietary Funds.

**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards and the State of Texas Uniform Grant
Management Standards**

The Honorable Mayor and Members of the City Council
City of El Paso, Texas
El Paso, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of El Paso, Texas (the City) as of and for the year ended August 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 26, 2010, which contained a reference to the reports of other accountants. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State of Texas *Uniform Grant Management Standards*, issued by the Governor's Office of Budget and Planning. The financial statements of the El Paso City Employees' Pension Fund, a component unit included in the financial statements of the aggregate remaining fund information, were not audited in accordance with *Government Auditing Standards* and the State of Texas *Uniform Grant Management Standards*. Other accountants audited the financial statements of the El Paso Firemen and Policemen's Pension Fund and the Public Service Board - El Paso Water Utilities, as described in our report on the City's financial statements. This report does not include the results of the other accountants' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those accountants. The financial statements of the El Paso Firemen and Policemen's Pension Fund, a component unit included in the financial statements of the aggregate remaining fund information, were not audited in accordance with *Government Auditing Standards* and the State of Texas *Uniform Grant Management Standards*. The financial statements of the Public Service Board - El Paso Water Utilities were not audited in accordance with the State of Texas *Uniform Grant Management Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the State of Texas *Uniform Grant Management Standards*.

We noted certain matters that we reported to the City's management in a separate letter dated February 26, 2010.

This report is intended solely for the information and use of the Mayor, City Council, and management of the City, the federal and state cognizant agencies, other federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 26, 2010

Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal and State Awards Programs and Schedule of Expenditures of Federal and State Awards

The Honorable Mayor and City Council
City of El Paso, Texas
El Paso, Texas

Compliance

We have audited the compliance of the City of El Paso, Texas (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the State of Texas *Uniform Grant Management Standards* that are applicable to each of its major federal and state programs for the year ended August 31, 2009. The City's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the City's management. Our responsibility is to express an opinion on the compliance of the City based on our audit.

The City's basic financial statements include operations of the Public Service Board –El Paso Water Utilities (EPWU), a discretely presented component unit of the City, which received \$28,616 in federal awards which are not included in the schedule during the year ended August 31, 2009. Our audit, described below, did not include the operations of the EPWU because the component unit engaged other accountants to perform the audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas *Uniform Grant Management Standards*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended August 31, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal or state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal and State Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of El Paso, Texas as of and for the year ended August 31, 2009, and have issued our report thereon dated February 26, 2010, which contained a reference to the reports of other accountants. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State of Texas *Uniform Grant Management Standards* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, City Council, and management of the City, the federal and state cognizant agencies, other federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, up

February 26, 2010

City of El Paso, Texas
Schedule of Findings and Questioned Costs
Year Ended August 31, 2009

Summary of Auditor's Results

1. The opinions expressed in the independent accountants' report were:
 Unqualified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

Federal Awards

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

5. The opinions expressed in the independent accountants' report on compliance with requirements applicable to major federal awards were unqualified.

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. The City's major federal programs were:

Cluster/Program	CFDA Number
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
HOME Investment Partnerships Program	14.239
Federal Transit_Formula Grants	20.507

City of El Paso, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2009

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$2,240,005.
9. The City qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

State Awards

10. The independent accountants' report on internal control over compliance with requirements applicable to major state awards programs described:
- Significant deficiency(ies) noted considered material weakness(es)? Yes No
- Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No
11. The opinions expressed in the independent accountants' report on compliance with requirements applicable to major state awards were:
- Unqualified Qualified Adverse Disclaimed
12. The audit disclosed findings required to be reported by the State of Texas *Uniform Grants Management Standards*: Yes No

13. The City's major state programs were:

Cluster/Program

Local Border Security Program
Immunization Branch – Locals

14. The threshold used to distinguish between Type A and Type B programs as those terms are defined in the State of Texas *Uniform Grants Management Standards* was \$300,000.
15. The City qualified as a low-risk auditee as that term is defined in the State of Texas *Uniform Grants Management Standards*? Yes No

City of El Paso, Texas
Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2009

Findings Required to be Reported by *Government Auditing Standards*

No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

No matters are reportable.

Findings Required to be Reported by the State of Texas *Uniform Grants Management Standards*

No matters are reportable.

City of El Paso, Texas
Summary Schedule of Prior Audit Findings
Year Ended August 31, 2009

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Status
2008-01	<u>Federal Transit Formula Grants</u> <u>CFDA No. 20.507</u> <u>U.S. Department of Transportation</u> <u>Reporting</u>	Resolved

Criteria or Specific Requirement:

Pursuant to 49 CFR Section 26.11, SunMetro is required to file a special report with the Federal Transit Administration on the progress of their DBE program semi-annually.

Condition:

The City did not file the August 2008 DBE report timely.

Context:

Out of two DBE reports required to be filed during the year, only one was filed timely. Therefore, the program's special reporting requirements were not followed in the manner required by Federal regulations.

Effect:

Special reporting requirements were not met.

Cause:

As a result of employee turnover within the department, internal controls were not properly maintained to help ensure compliance with federal regulations.

Recommendation:

We recommend SunMetro update its internal control procedures to specifically address the special reporting requirements of the program.

Views of Responsible Officials and Planned Corrective Actions:

DBE report was not filed due to lack of proper training. Sun Metro administrative employee attended a DBE training course from NTI March 23-27, 2009.

Responsible Official- Kimberley Phillips, Business and Finance Manager

City of El Paso, Texas
Summary Schedule of Prior Audit Findings (Continued)
Year Ended August 31, 2009

Reference Number	Finding	Status
2008-02	<u>Empowerment Zones Program</u> <u>CFDA No. 14.244</u> <u>U.S. Department of Housing and Urban Development</u> <u>Subrecipient Monitoring</u>	Unresolved

Criteria or Specific Requirement:

Per OMB A-133 Section 400(d), the City is responsible for monitoring subrecipients for compliance with grant agreements and other OMB requirements.

Condition:

On October 12, 1999 the City of El Paso (City) contracted with a third party to administer its Empowerment Zone Grants. In the fall of 2006, while conducting its subrecipient monitoring duties, the City identified findings regarding business and accounting practices, lack of internal controls and potential illegal acts and abuse involving the disbursement of grant funds. In December 2006, the third-party's independent auditor completed an audit in accordance with OMB A-133 and identified similar findings.

Subsequent to the third-party's independent audit, the Department of Housing and Urban Development (HUD) conducted their own investigation and found similar findings which led to an investigation by the Federal Bureau of Investigation which is still ongoing. In May of 2007, HUD agreed to allow the City to transition the administration of the Empowerment Zone Grant from the third party.

Context:

Due to the transition of the administration of the program back to the City, the City was only able to monitor 4 out of an unknown amount of subrecipient programs.

Effect:

The City is not in compliance with the requirements of the Empowerment Zone Grant due to its inability to monitor the subrecipients of the program

City of El Paso, Texas
Summary Schedule of Prior Audit Findings (Continued)
Year Ended August 31, 2009

Reference Number	Finding	Status
2008-02 (Continued)	<u>Empowerment Zones Program</u> <u>CFDA No. 14.244</u> <u>U.S. Department of Housing and Urban Development</u> <u>Subrecipient Monitoring</u>	Unresolved

Cause:

During the investigation of the outside administrator by Federal authorities certain of the program records were seized and the City has been unable to obtain timely custody of the necessary documents which prohibited it from performing its subrecipient monitoring duties.

Recommendation:

We recommend the City begin monitoring all subrecipients as quickly as possible.

Views of Responsible Officials and Planned Corrective Actions:

The City monitored the subrecipient as required by contract and OMB Circular A-133.

The City believes HUD is questioning \$815,609 in costs. The City is not in possession of the Empowerment Zone records and can not make any decision until after a review is performed. Based upon the City's review of its records, the City disputes approximately \$495,470 of the questioned costs. No determination is possible without access to the Empowerment Zone records on the remaining \$320,139 of questioned costs.

City of El Paso, Texas
Summary Schedule of Prior Audit Findings (Continued)
Year Ended August 31, 2009

Reference Number	Summary of Finding	Status
07-4	<u>Empowerment Zone</u> <u>CFDA No. 14.244</u> <u>U.S. Department of Housing and Urban Development</u> <u>Subrecipient Monitoring</u>	Unresolved See Prior Year Finding 2008-02

Criteria:

Per OMB Circular A-133 (§____.225 and §____.400(d)), the program is responsible for assuring before disbursing any Empowerment Zone funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient, which shall include provisions concerning the statement of work, records, reports, program income, uniform administrative requirements, and reversions of assets. In addition, the program is responsible for monitoring subrecipients for compliance with agreements and other OMB requirements.

Condition/Context:

The City utilized only one subrecipient in the delivery of services related to this grant. During the City's subrecipient monitoring activities in fall 2006, the City identified concerns regarding the subrecipient's utilization of federal grant funds. The concerns involve allegations regarding business and accounting practices, lack of sufficient controls and possible illegal acts and abuse regarding the payment of certain expenditures. In December 2006, the subrecipient's independent external auditor completed an audit in accordance with OMB Circular A-133 and identified two findings and questioned costs of \$611,520.

Subsequent to the identification of the issues noted above, the Department of Housing and Urban Development (HUD) conducted their own investigation into the Empowerment Zone grant with a particular focus on the subrecipient's activities. Based on HUD's review, HUD has issued notices of preliminary findings regarding the City's management of the program which included the \$611,520 of questioned costs noted above plus an additional \$508,025 (total of \$1,119,545). Per an April 10, 2008 letter from HUD, the City cleared \$320,006 of the questioned cost. The remaining \$799,539 of questioned costs is being discussed.

Cause and Effect:

The subrecipient under this grant expended funds in manner that may not be in compliance with the terms of the grant agreement and, based on this, HUD has raised questions regarding the City's subrecipient monitoring practices. As a result of the concerns noted, HUD has requested the City

City of El Paso, Texas
Summary Schedule of Prior Audit Findings (Continued)
Year Ended August 31, 2009

Reference Number	Summary of Finding	Status
07-4 (Continued)	<u>Empowerment Zone</u> <u>CFDA No. 14.244</u> <u>U.S. Department of Housing and Urban Development</u> <u>Subrecipient Monitoring</u>	Unresolved See Prior Year Finding 2008-02

to reimburse HUD for amounts it believes the subrecipient improperly expended. Potential questioned costs range from \$0 up to \$799,539.

Recommendation:

We recommend that the City complete its investigation into the potentially unallowable expenditures. We also recommend that the City evaluate their subrecipient monitoring procedures for opportunities to improve this process in the future.

Views of Responsible Officials and Corrective Action Plan:

The City of El Paso is working diligently with the U.S Department of Housing and Urban Development to resolve all pending issues and restore the program.